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Issues and principles for possible improvements in the present programming arrangements*

Summary

In its decision 99/2, the Executive Board requested that the Administrator submit a report to the Board at its annual session 2002 on possible improvements in the distribution model for resources under the target for resource assignment from the core (TRAC), including a review of thresholds.

The Executive Board will also have to confirm or modify the overall financial framework for the allocation of regular programme resources for 2004 and beyond, since the current programming arrangements were endorsed for the period ending 31 December 2003.

As part of the preparatory process for the review, UNDP presented a working paper (DP/2002/WP.1) in early January 2002 that identified a number of possible changes in both the distribution model for TRAC resources and with regard to other aspects of the existing arrangements. Informal consultations were arranged between January and May 2002 to review these proposals. At these informal sessions a number of technical notes were also presented.

To facilitate timely decisions by the Executive Board on the programming arrangements for 2004 and beyond, the present paper provides a summary of the recommended options for change in the current programming arrangements as identified during or as a result of these informal consultations.

* The collection and analysis of current data required to present the Executive Board with the most up-to-date information has delayed submission of the present document.

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Introduction

1. The current paper provides a brief outline of the recommended options for change, as identified during the internal review of present arrangements by UNDP and the subsequent informal consultations with the Executive Board They are presented in three separate sections, as follows:

(a) Overall principles and financial parameters;

(b) Possible changes in the TRAC distribution model;

(c) Possible changes in the programming arrangements for specific programme lines other than TRAC line 1.1.1.

Current principles and overall financial parameters and features

2. Both the internal review carried out by UNDP and the subsequent informal consultations appear to confirm th continuing validity and usefulness of the overall parameters and features of the existing regular programming arrangements of UNDP.

3. The Administrator, however, proposes that the Executive Board consider a move from a three-year regular resources programming framework (2004-2006) to a four-year framework (2004-2007) so that it coincides with the pe of the multi-year funding framework (MYFF).

4. The earlier established provisional resource earmarkings for the eight regular resource programme lines (2001-2003) are reflected in column 1 of table 1. They are shown as a percentage of regular resources available for programming, i.e., after deduction of the biennial support budget that is approved separately by the Executive Board.

Possible changes in the TRAC 1 distribution model

5. In document DP/2002/WP.1, the Administrator, in response to decision 99/2, identified five specific areas fo possible changes in the current TRAC 1 distribution model:

(a) Changes in the net contributor country (NCC) threshold;

(b) Introducing some degree of flexibility in the share of total TRAC resources going to low and middle-income countries, respectively;

(c) Introducing a ceiling for individual TRAC resource earmarkings;

(d) Introducing minimum TRAC 1 earmarkings;

(e) Introducing additional or alternative TRAC 1 distribution criteria.

6. In light of the informal consultations, the Administrator proposes no change in the NCC threshold and to postpone any decision on the establishment of a ceiling for individual TRAC resource earmarkings until a later date v preliminary TRAC 1 earmarkings will be presented to the Executive Board on the basis of gross national income (GN per capita data for 2001. In this respect, it is noted that the number of NCCs is likely to increase if the current thresh maintained as a result of inflationary factors and the gradual upward movement of GNI per capita in middle-income countries due to economic growth. If the Board agrees to move to a four-year financial framework, it is proposed tha current three-year "grace" period for first time NCCs is also extended to four years.

7. The introduction of a ceiling on TRAC 1 earmarkings, though desirable in view of resource constraints, seems also to have no strong support at this juncture. The introduction of a ceiling would likely affect only a few countries that currently receive a floor supplement. Such floor supplements were earlier introduced by the Board (or Governing Council at that time) to ensure that a country's TRAC (or IPF at that time) would not see a drastic reduction in UNDP assistance from one programming period to the next due to relative changes in its GNI per capita in relation to that of other countries. This implies that, all other things being equal, the earmarkings of the concerned countries are likely to be gradually reduced over time as countries see their floors reduced by a certain percentage each subsequent programming period.

8. Similarly, following the internal review and informal consultations, the Administrator recommends no changes in the use of existing distribution criteria at this juncture, because the disadvantages resulting from the introduction of any of the various new indicators reviewed appear to outweigh the advantages. The Administrator, however, also recommends that the matter be kept under active review so that the use of other, or additional, criteria can be revisited again when issues of data availability, data reliability, methodological consistence and the underlying concepts have been resolved and/or clarified.

9. Based on the informal consultations, the Administrator proposes combining the introduction of a certain degree of flexibility in the share of total TRAC resources going to low-income countries with the introduction of minimum TRAC 1 earmarkings in such way that, at current resource levels, the share of TRAC 1 resources going to the low-income country group remains more or less the same as that for the current programming period. The proposed modifications in the current TRAC 1 distribution model can be summarized as follows:

(a) Distribution of available TRAC 1 resources in accordance with the current distribution formula under a "one-pool" model, i.e., without any predetermined share for low-income or middle-income countries. The application of the existing distribution formula without any predetermined fixed share for middle-income countries would strongly favour low-income countries. Using 2000 GNI per capita data, 92 per cent of TRAC resources would go to low-income countries;

(b) A minimum TRAC 1 allocation of $350 000 for all 117 non-NCC countries with a country office to be introduced within the TRAC 1 distribution model as an absolute floor. Separate minimum TRAC 1 allocations would also be established for the eight multi-country offices, with the minimum established at commensurate levels depending on the countries covered by the country office and their TRAC 1 earmarkings [in line with the approach used by the United Nations Children's Fund (UNICEF)]. The introduction of an absolute floor would still favour low-income countries, but less than the existing distribution formula.

10. If 2000 GNI per capita data are applied, the above arrangement would result in a share of TRAC 1 resources for low-income countries between 88 and 91 per cent under various resource scenarios ranging from $700 million to $1.1 billion. The higher the resource level, the greater would be the share for low-income countries.

11. The use of 2001 GNI data may cause some further shifts in the distribution of TRAC 1 resources. The Administrator, therefore, proposes that the Executive Board agree on a range, for example, from 85 to 91 per cent of total TRAC 1 resources for low-income countries, i.e., a spread of 3 per cent on each side of the current predetermined fixed share of 88 per cent. If the TRAC 1 calculations, in accordance with the distribution methodology set out above, result in a TRAC 1 percentage share for low-income countries outside the range, the Administrator will revert back to the Board for further adjustments. Additional adjustments, if required on the basis of 2001 GNI per capita data, could then be made by either adjusting the amount of the minimum TRAC 1 earmarking or by revising the GNI per capita thresholds at which the GNI per capita weights shift progressively.

12. The percentage range of 85 to 91 per cent would apply to both the calculation of TRAC 1 earmarkings and to the assignment of total TRAC 1 and 2 resources. Hence, the proposed arrangement would also provide the Administrator with greater flexibility when allocating TRAC 2 resources.

13. Similar to the UNICEF approach, the agreed minimum TRAC 1 earmarking would be reduced proportionately if the total regular resources available for programming would fall below a certain level (for example, $450 million, which would imply total regular resources of $700 million). The minimum TRAC 1 earmarking to be established for multi-country offices would constitute the minimum TRAC 1 earmarking for the countries covered by the concerned country office. Their individual share in the minimum TRAC 1 would be in proportion to their calculated TRAC 1 earmarkings.

14. As part of the above arrangements, the Executive Board may also wish to consider: (a) an arrangement for a mid-term (2005) recalculation of the TRAC 1 earmarkings on the basis of the latest available GNI per capita data available from the World Bank (2004 data for most countries); and (b) a special arrangement to recalculate, at any time, the TRAC 1 earmarkings for countries that have seen a significant drop in their World Bank GNI per capita figure from the 2001 figure used in the original calculation (for example, a reduction of more than 25 per cent combined with a drop below one of the thresholds used for low-income countries or NCC status).

Possible changes in the programming arrangements for specific programme lines

15. For reasons explained in document DP/2002/WP.1, in 2001 the Administrator initiated a review of the current arrangement for support for policy and programme development/support for technical services (SPPD/STS), which are financed under line 2.2 of the current financial framework for regular resources.

16. The main purpose of the review was to agree with the participating United Nations organizations on a number of modifications in order to simplify the facility's operational and procedural aspects and to strengthen its focus on new emerging priorities where strategic advisory services provided by the United Nations system can have the greatest impact.

17. Following consultations with United Nations organization partners during a series of inter-agency consultative meetings, including the recent one held in Geneva in April convened to discuss specific changes, the Administrator is pleased to inform the Executive Board that agreement has been reached in principle on all issues concerned.

18. Revised guidelines for the use of the facility, which is proposed to be renamed United Nations Strategic Advisory Facility (UNSAF), are under preparation and should be available for review by the Executive Board before the end of 2002. These new guidelines will clearly outline the underlying operational principles of the facility, its increased focus and drastically simplified procedures. It will also emphasize the United Nations system partnership dimension of the facility, both in terms of joint inter-agency activities and cooperation with entities outside the United Nations system.

19. With regard to the proposal to establish fixed absolute amounts for selected programme lines/programme components within the financial framework as outlined in paragraphs 30 through 32 of document DP/2002/WP.1, the Administrator recommends that the 2004 allocations for the concerned lines/components be set as detailed below.

20. For two of the components currently financed under line 1.3 global programme — the Human Development Report Office (HDRO) and the Office of Development Studies — and the Economist Programme, which was previously financed under the biennial budget, the fixed allocations, to become effective in 2004, would be set at $5.3 million, $1.1 million and $4.5 million, respectively, for reasons briefly explained below:

(a) The *Human Development Report (HDR)* (currently part of line 1.3) was launched in 1990 with the single goal of placing people at the centre of the development process in terms of the development debate, policy and advocacy. The current level of resources for the HDR stands at $5.3 million annually, of which about $2.9 million is financed from the global programme. In light of the significant role of the HDR in the overall development debate and the ongoing efforts to further strengthen HDRO support to the preparation of national human development reports, it is important for the programme to carryout its independent functions on a secured funding basis, thus avoiding the need to seek non-core resources. Many member states have frequently stated that the HDR should be adequately funded from regular resources.

(b) The *Office of Development Studies (ODS)* (currently part of line 1.3) contributes to the global development role of UNDP by providing forward-looking policy analyses and promoting research partnerships with leading think tanks around the world on issues of sustainable human development. It is also responsible for building bridges between policy analysis and policy-making. ODS publishes a number of thought-provoking books and discussion papers and organizes round tables, meetings and lecture series. These publications are invaluable to policy-makers, academics, development specialists and others interested in exploring key development issues. A reasonable level of $1.1 million is proposed under the fixed allocation, similar to the current level of $1 million and taking into consideration a modest inflation adjustment.

(c) The *Economist Programme* was reviewed within the context of the 2002-2003 support budget (DP/2001/21) when the Executive Board agreed to shift the economists programme, amounting to $4.0 million annually, from the support budget to the programme. This shift was to capture accurately the substantive character and value of the activities carried out by the economists at the country level. The proposed $4.5 million under the fixed allocation provides the level of resources required to maintain this important capacity at its current level, reflecting a modest inflation adjustment.

21. The total of $10.9 million would be shown as a separate line in the financial framework. The percentages for the regional and global programme earmarkings, line 1.2 and line 1.3 would be reduced accordingly by 0.5 and 0.8 per cent, respectively. The knowledge network would continue to be financed under the global and regional programme lines and could be considered for a move to the separate fixed programme line at a later date when it has been operational for some time. Doing so will make possible a more accurate assessment of its fixed funding needs.

22. For line 3.1, support to the resident coordinator and development support services (DSS), line 1.4, evaluation line and line 1.5, technical cooperation among developing countries, the following fixed allocations are proposed for reasons explained below:

(a) *Support to the resident coordinator (line 3.1).* A fixed annual allocation of $13.5 million for support to the resident coordinator reflects the recognition by the General Assembly of the role of UNDP as the funder and manager of the resident coordinator system. As such, UNDP is responsible for the coordination of United Nations system-wide operational activities at the country level. The current level of programme resources for this function has remained at around $4.6 million annually, with the result of country offices receiving on the average $35 000 annually. This amount is far from adequate for UNDP to respond effectively to the mandate of the General Assembly. The proposed level of $13.5 million under the fixed allocation will provide an average of $100 000 per country office, a reasonable level for programming for this crucial function.

(b) *Development support services (line 3.1).* A fixed annual allocation of $6 million is proposed because the current level of resources under this category of around $1million annually has proven to be inadequate. These resources provide resident representatives with flexibility in responding to emerging substantive needs of countries. Currently, when situations arise at the local level where UNDP can clearly play a role, resident representatives lack the reasonable level of resources to fund any quick-response interventions; other institutions such as the World Bank have this capacity. The average current amount available per country office is currently around $8 000. The proposed level of $6 million will provide an average of $45 000 per country office, a reasonable level for this support to resident representatives that would also help in leveraging non-core resources to support emerging needs in countries. It should also be noted that in the context of the 2002-2003 support budget (DP/2001/21), the Executive Board agreed to the UNDP proposal to utilize $2.5 million in budget savings annually to increase the DSS resource level.

(c) *Evaluation Office (line 1.4).* To carryout a systematic and comprehensive assessment of the results, effectiveness and impact of the substantive activities of the programme, a minimum level of resources is required. This need is underpinned by General Assembly resolution 56/201 (paragraphs 48-56) on the triennial comprehensive policy review of operational activities for development and the increased demand for independent validation of reported results, which subsequently warrants closer attention to the need for a stable resource base. Since 1999, the annual allocation to the Evaluation Office has declined from the originally envisaged level of $3 million to less than $1 million, which makes

the evaluation function vulnerable and difficult to sustain. For these reasons, a fixed allocation level of $2.5 million is proposed. The proposed amount should provide a reasonable level of programme resources to undertake monitoring and evaluation activities expected by the Executive Board and necessary to ensure the overall substantive accountability of the Administrator.

(d) *Technical cooperation among developing countries (line 1.5).* The current level of programme resources has remained at $1.7 million annually, which has been inadequate to support the mandated activities of this programme. TCDC is an integral part of country, regional and interregional programmes and a cost-effective modality for South-South technical cooperation. Having a reasonable level of resources will support the TCDC modality to foster the goals of national and collective self-reliance while broadening the scope and quality of international cooperation. It is on this basis that a fixed annual allocation of $3.5 million is proposed.

23. Any additional allocation to the above programme lines, if considered desirable by the Executive Board at a later date, should be accompanied by a commensurate reduction in the biennial budget. The proposed financial framework reflecting the proposed fixed allocations for each of the concerned lines/components, as detailed above, is shown in columns 2 and 3 of table 1.

24. This proposed framework also reflects a suggested regrouping of the existing lines to reflect better the specific nature of the concerned programme components. Hence, the UNSAF (old SPPD/STS) facility and the development support services shown under the country programme subheading as the concerned facilities are designed for programme activities at the country level. Similarly, line 1.5, on special resources for TCDC, line 1.4, on evaluation and the new line 1.6, on the HDRO/ODS/Economist Post are now grouped under the inter-country subheading. This grouping reflects better the nature of the concerned programmes. The TCDC facility is meant for South-South inter-country cooperation while the other two TRAC lines represent fixed programme costs related to the overall programme of UNDP.

25. With regards to the proposed special pool of TRAC 2 resources for opportunity-driven allocations as outlined in paragraphs 33 through 35 of document DP/2002/WP.1, the Administrator wishes to reiterate that the establishment of such a special pool would most likely only be feasible once the level of regular resources has passed the $900 million mark. In anticipation of a rise in regular resources, the Administrator would welcome the views on the proposal of the Executive Board. If agreement is reached on the desirability of such an arrangement, he can prepare more specific proposals regarding the specific operational and management principles that would govern the allocation of the concerned pool of resources.

Table 1 - Programme financial framework 2004-2007

UNDP Programme and support to operational activities of the United Nations [1]	Current percentage of resource available for programming at $1.1 billion	Fixed allocations (millions $)	Proposed percentage of resource available for programming at $1.1 billion
A. Programme			
Countries			
Lines 1.1.1 and 1.1.2 – TRAC	70.6%		70.9%
Line 1.1.3 – TRAC	6.6%		6.6%
Line 2.2 – UNSAF (SPPD/STS)	4.0%		4.0%
Line 3.1 – DSS	0.4%	6.0	0.7%
Subtotal	81.6%		82.2%
Inter-country			
Line 1.2 – Regional	10.0%		9.5%
Line 1.3 – Global	5.5%		4.7%
Line 1.4 – Evaluation	0.4%	2.5	0.3%
Line 1.5 – Special resources for TCDC	0.7%	3.5	0.4%
Line 1.6 – HDRO/ODS/Economists	0.0%	10.9	1.3%
Subtotal	16.6%		16.2%
Total programme	**98.2%**		**98.4%**
B. Support to operational activities of the United Nations			
Line 3.1 – Programme support to the resident coordinator	1.8%	13.5	1.6%
Total UNDP programmes and support to operational activities of the United Nations	**100.0%**	**36.4**	**100.0%**

[1] Lines are numbered in accordance with the currently approved financial framework. Numbering will be adjusted for next financial framework.